

Changing the Way We Look at Hanford Cleanup

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INTRODUCTION

- Glad to have the opportunity to update you on Hanford and set the stage for my compatriots.
- I'll start with a refresher on our overall strategy for Hanford cleanup and where we are in getting everything aligned to that strategy.
- I will describe some features of the draft RFP, just released last Friday, that should be of particular interest to you.
- And finally I'll show you what Harry and I have our sights on in terms of being able to improve the total time and costs to implement major cleanup at Hanford.



Strategy

1998 - 1999

Acknowledge Problem

- Takes too long
- Costs too much
- Credibility gap
- Investors losing confidence
- No end in sight
- "Slow boat to nowhere"

1999 - 2000

Develop the Solution: The Vision

Changing the Way We Look at the Hanford Site

Three Outcomes

- River
- Plateau
- Future



Shrink the Site to 75 square miles

Phased Exit

Retooling and Building Credibility

- Plans, baselines, detailed objectives, etc.
- Contracts (M&I, multi-year performance incentives, eliminating requirements)
- Management systems
 - Fed/contractor interface
 - Federal systems
- Credibility (meeting commitments - SNF, Pu, TRU, reactors, uranium)
- Attitudes

LAST TWO YEARS

- First a refresher starting two years ago –
 - At that time we began facing up to a problem, coming out of denial and acknowledging that Hanford cleanup as it was currently planned, would take too long and cost too much;
 - investors were losing confidence; and
 - we were perceived, in my words, as “an expensive, slow boat to nowhere.”
- We needed to show people we had focus, determination and a sense of urgency and we needed credibility.
- That led to simplifying our goals to just 3 things: Restoring the River, Transitioning the Central Plateau and Preparing for the Future.
- We had to “retool” – we needed detailed objectives, new baselines, better contracts and management systems, different attitudes and we needed to get these things, our people, our stakeholders, and legal drivers all aligned.



Strategy (continued)

2000 - 2001



Ensure Alignment

- Workers ✓
- Community ✓
- Stakeholders ✓
- Contractors ✓
- Key Congressional elements ✓
- Regulators (Cleanup Constraints & Challenges Team (C3T))
- DOE-HQ and the Administration

Today



Next Steps

Finish Alignment and Implementation and Accelerate Work

- Cleanup Constraints and Challenges effort
- Aggregating work (tanks, River Corridor, Central Plateau)
- Putting the “right” contracts on the work
- **COMING TOGETHER**

- So ... where are we now? Enter a new administration, not sure about this very expensive EM program.
- This made it all the more important that we, at Hanford, have our “act together,” so to speak ... clear goals, workable plans, realistic compliance agreements, good contracts, right attitudes, etc.
- We set in motion an effort called the Cleanup, Constraints, and Challenges Team, to put some further “finishing touches” on our coming together.



Cleanup, Constraints and Challenges (C3T)

Participants:

- DOE, regulators, contractors, Oregon, labor, Tribes, and observers

Goals:

- A common and widely accepted vision for what Hanford cleanup is, including end states
- A recommitment to the Tri-Party Agreement as the governing document for Hanford cleanup
- Evaluation and appropriate reduction of requirements to improve efficiency
- A strategy that is feasible technically, prudent fiscally, and meets the needs of our regulators and region, in order to engender broad support for Hanford cleanup activities

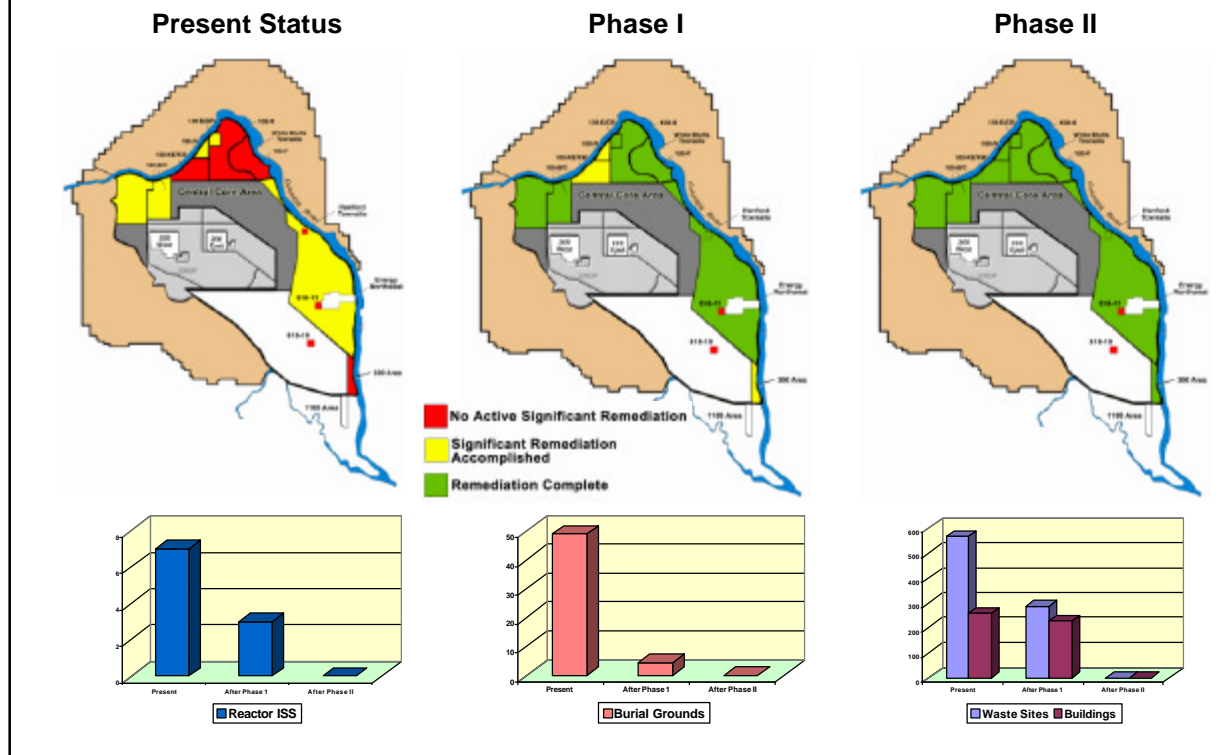
C3T

Harry and I gathered together decision makers representing labor, area Tribes, our regulators, Oregon State, and our prime contractors – along with HAB and local government observers – to deal with our most important issues and policy questions.

- It's been an extremely useful and positive experience. Our first meeting identified in four key goals:
 1. To get a common and widely-accepted vision for what Hanford cleanup "is" – including endpoints and endstates; what is it we are trying to buy?
 2. a recommitment by all parties to the Tri-Party Agreement as the governing document for Hanford cleanup;
 3. evaluation and reduction of requirements to improve efficiency; and
 4. finally – to articulate a strategy that is feasible technically, prudent fiscally, and meets the needs of our regulators and region – in order to engender broad support for Hanford cleanup activities.
- As it turns out, this effort is fitting well with the top down review, helping to answer questions with regard to top down strategies, regulatory relationships, etc.



River Corridor Cleanup –Clear Job, One Contractor



ACCELERATED RIVER CORRIDOR CLEANUP

- Let me now turn to a key piece of Hanford strategy, the accelerated cleanup of the River Corridor and our draft RFP released just last Friday.
- You may have noticed, I am the Source Selection Official. Everything I say about this contract therefore is subject to scrutiny, and needs to be available to all prospective bidders – hence my remarks today will be posted on the web.
- We're excited about this RFP. It enables a quantum step forward in the cleanup of Hanford and it will further advance performance based contracting in the Department.
You heard Undersecretary Card and Assistant Secretary Roberson describe the importance of knowing what it is we are buying when it comes to spending the taxpayer dollars for environment management cleanup.
- How clearly have we defined this workscope? This slide summarizes the work involved. The draft RFP divides the River Corridor Project into Phases I and II, as shown. Under the current approach, Phase I will be performed under a Cost Plus Incentive Fee contract (similar to Rocky Flats) with an option for Phase II performed under a Fixed Price Incentive Successive-Targets arrangement.
- Why "phase" this project? There's a large portion of the River Corridor work for which regulatory approvals have not yet been secured and little if any design work has been performed.
- But, sufficient regulatory decisions should be made and design and characterization work completed well before the start of Phase II to enable the Contractor to propose a firm target cost or firm fixed price.
- Because uncertainties tend to favor the incumbent, phasing helps minimize the incumbent's advantage by reducing the offerors commitment to the more uncertain second phase.
- One of the objectives of Phase I would be to perform the Phase II design work and obtain the necessary regulatory approvals so as to reduce that uncertainty. DOE will have the unilateral right to exercise the option after Phase I is well along, and we will obviously consider the contractor's Phase I performance in that decision.
- Phase I work will be to finish the remediation of the entire 100 Area except for the K East and K West Reactors, where we need to finish removing the spent nuclear fuel, sludge, debris and water, and the N Reactor, with its unique design and complexities. Phase I also includes the demolition of Hanford's 324 and 327 Buildings, along with 12 smaller facilities in the 300 Area. In all, Phase I will complete the cleanup of 267 waste sites, 45 burial grounds, 31 buildings and 4 reactors. All the major regulatory decisions are in place for this work, as is extensive characterization and cost estimating information.
- Phase II will complete the remediation of the K and N Reactors and the 300 Area – in all, it will require remediating 255 waste sites, 4 burial grounds, 230 buildings and 3 reactors.



River Corridor Closure Contract

Objectives

- Incentivize performers
 - To complete cleanup as soon as possible
 - To get in and get out
 - To reduce the footprint by 85% in 10 years
- Help make DOE a nationally preferred buyer that attracts the nation's best contractors and executives to its work
- Strong competition
- Attract the interest of companies that may not have traditionally or recently worked for the department as a prime contractor

OBJECTIVES

- Our objectives for this procurement are clear. We want to incentivize performers to complete cleanup as soon as possible – essentially to “get in and get out,” to simply execute the remedies agreed to in the CERCLA Records of Decision. The result ... a reduction in the Hanford active operations footprint by about 85 percent over the next ten years.
- Secondly, we want to make DOE a nationally preferred buyer – one that attracts the nation's best contractors and executives to its work. This is a key point. We're asking for top-notch work, we are willing to pay for it, and we're committing to being a top-notch customer.
- Third goal for this RFP was to have a strong competition, in the best tradition of American enterprise, that would benefit Hanford cleanup and the taxpayer's investment in it.
- And last, we're interested in attracting the interest of companies who may not have traditionally or recently worked for the department as a prime contractor ... So you will see many features that we believe help minimize the incumbent advantage.



River Corridor Closure Contract

Features

- Phase I, Cost Plus Incentive Fee (\$1.5B); Phase II, Fixed Price Incentive Successive-targets (\$1.3B)
 - Significant fees (up to 15% of target) with potential for substantially more work, commensurate with assumption of risks and superior performance
- Work scope, including business risks, as clear as possible
- Making it easier and more predictable to do work at Hanford
 - Fewer requirements, less interference, and clarified contractor/federal roles
 - Commitments to government-furnished services and information
- Opportunity and time for offerors to fully understand what they are “getting into”

FEATURES

- OK. Key features of the draft RFP ... First, as I mentioned, two phases. First is the Cost Plus Incentive Fee type, potentially valued at \$1.5 billion. The second is what we called Fixed Price Incentives Successive-targets contract, potentially valued at \$1.3 billion.
- Let me say a word about our cost estimating. Back in June, we placed a baseline cost and schedule for the entire River Corridor, developed under the direction of the Army Corps of Engineers, on our procurement website. It included \$150 and \$180 million per year cases on Phase I. The workscope and funding profiles used for the Corps of Engineers estimate is DIFFERENT than what we ended up with in Phase I in the draft RFP. But the updated cost estimate out will be available soon.
- Some of you are probably wondering about the “Fixed Price Incentive Successive-targets” description we’ve used for Phase II. It’s almost the same as cost plus incentive fee.
- The “successive targets” means that at a time specified in the contract in Phase I, the initial target cost and profit can be adjusted to account for better understanding of the expected Phase II costs. The parties to the contract may also negotiate a firm fixed price at that time, using the negotiated firm target cost and fee as a guide.
- This RFP contains the potential for significant fees – up to 15 percent of target! Offerors will propose a target cost and a target fee with their proposals. For every dollar the contract completes the project below target cost, it receives 30-cents – up to that 15 percent of the target cost. So for example, if the contractor bid Phase I at a target cost of \$1.3 billion and a target fee of 8 percent and delivers the project at \$1 billion, the contractor would earn a fee of \$194 million, or 19.4 percent of incurred cost – a very healthy return indeed!
- The taxpayer wins too, in this scenario, because the contractor will be highly motivated to bring costs in under target. AND – we’ve made sure the contract works for us in the reverse scenario, too, -- if the contractor bids Phase I at \$1 billion and brings it in at \$1.3 billion, its fee would be \$20 million, or just 1.5 percent of incurred cost.
- Other RFP features ... we’ve made the workscope, including the business risks, as clear as possible. There is extensive information on the web as well as in the draft RFP on technical, schedule and cost risks. Note that there is minimal reliance on disposal sites in order to perform this work!
- We’ve taken steps to make it easier and more predictable to do work at Hanford – by having fewer requirements, less interference, clarified federal vs. contractor roles, a bias for action (a “notify and go” versus “ask permission and wait” philosophy) and a commitment to timeframes for providing government-furnished services and information (including, for example, turnaround times for proposed changes to authorization bases).
- We’ve incorporated the opportunity and time for offerors to fully understand what they’re “getting into” at Hanford – the scope, magnitude, and complexity of our remediation challenges.



River Corridor Closure Contract

Features, Cont.

- Selection criteria that emphasize project management skills, key personnel, planned corporate involvement in the project, and contractor assumption of risk, rather than specific DOE experience
- Reduced need for personnel with existing Hanford River Corridor cleanup experience for bid preparation
- Accommodates up to a 40% budget variation
- Actively seeks ideas on how to better utilize commercial best practices in order to stimulate offerors who may not currently be involved with the department, but who have successful experience with other agencies or Superfund cleanups

FEATURES (Continued)

- We've included selection criteria that emphasize project management skills, key personnel, planned corporate involvement in the project, and contractor assumption of risk – rather than specific DOE experience.
- We've reduced the need for personnel with existing Hanford River Corridor cleanup experience for bid preparation.
- This draft RFP is structured to accommodate up to a 40 percent budget variation – a really important feature in the face of today's fiscal uncertainties.
- And we are further open to and seeking ideas on how to better utilize commercial best practices in order to stimulate offerors who may not currently be involved in Hanford cleanup or are not doing business with the department, but who have successful experience with other agencies or Superfund cleanups.
- As I said before, a number of these features are designed to minimize incumbent advantage, which is very important to us. We are actively seeking strong, healthy competition, and the "best and brightest" ideas and management people out there. Other things we've done along these lines:
- The offerors' commitment to the more uncertain part of the workscope has been reduced, which makes the risk associated with the bid more manageable for a non-incumbent.
- We've provided sufficient time in the schedule for any non-incumbent to study the scope of work and prepare a competent proposal, which includes preparation of the target cost.
- We've provided ample time for site tours, and for parties to ask questions and comment on the draft RFP. We'll evaluate each comment for its potential to influence the final RFP.
- We placed the Corps of Engineers' independent cost estimate on our website last June and will update the website whenever that estimate is revised. That same site also contains technical data that expands upon the scope of work.
- And we've gone to great lengths to ensure the scope of work is clear as possible and has eliminated open-ended or uncertain elements – such as groundwater remediation.



River Corridor Closure Contract

Help Us Answer Key Questions:

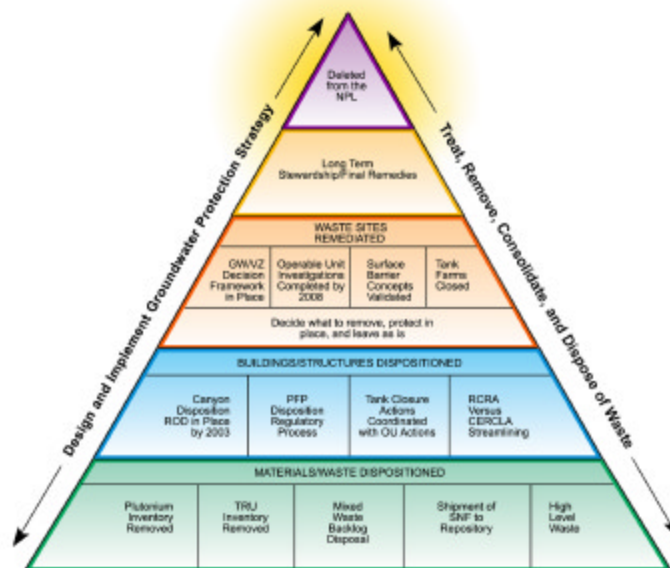
- Are there any features that make you not want to participate?
- Would it be better to have a separate competition for Phase II?
- Is the description of the work scope clear?
- Are website and public reading room information adequate?
- Is it reasonable to ask for a target schedule and cost profile for both the base case funding level and a level 40% higher?
- Would your company be more interested if this procurement were another contract type? If so, what?
- Is the requirement for a Phase II ceiling price a strong disincentive considering the mitigative features?

REQUEST FOR FEEDBACK

- We need the help of all potential offerors to make this the best contract we can. Some key questions we'd like your feedback on area summarized in this slide:
- I'm really proud of what we've put together in this RFP – I think it's the right balance of good strategy for early completion of cleanup, an excellent business opportunity for the right contractor, and great value for DOE's financial investment.
- And again, I strongly encourage your feedback on the draft RFP. We're taking comments until November 14th. We expect to issue the final RFP on January 23, 2002, and award the contract no later than October 1, 2002.



Central Plateau Approach to Closure



CENTRAL PLATEAU

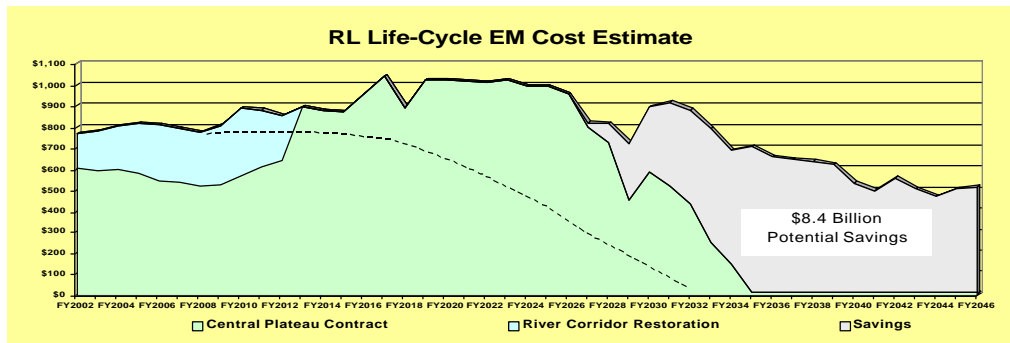
- So now the action turns to the Central Plateau – the final battleground, if you will
- That's, of course, home to the tanks, canyons, plutonium, stored spent fuel, active burial grounds and many soil and building remediation challenges.
- What is it that we want to buy there? Unlike the River Corridor, we're not that sure yet.
- We're engaging now in the discussions and negotiations that are fundamental to answering that question. There are many uncertainties.
- This chart shows our general approach. The bottom of the pyramid materials and wastes that must be disposed of – including the plutonium, high level waste, spent nuclear fuel, backlog of transuranic and mixed low level waste, etc. In many cases, you can't get to the contaminated building or waste sites until you have a functioning disposition pathway for the materials in them. Next, we are attacking the buildings and structures, things like the high level waste tanks themselves, the reprocessing canyon, and the Plutonium Finishing Plant. Several decisions must then be made dispositioning buildings and structures, including whether they are to be closed under RCRA or CERCLA processes and how associated operational units are affected. At the same time, we are working with stakeholder and regulators on the next level of decisions, perhaps the toughest, regarding the hundreds of waste sites around and under the buildings – decisions concerning what to remove, protect in place (i.e., through barriers or caps) or leave as is. All of the above activities generate waste that must be treated, stored and disposed of in accordance with today's standards. All these activities are being done with the ultimate objective of putting in place a groundwater protective strategy. In order to ultimately be able to successfully petition the EPA to be deleted from the National Priority List as a superfund site, we must be able to demonstrate through public processes that the combination of removal and protective actions, long term stewardship and monitoring activities, and implementation of final remedies, are protective of the groundwater in addition to the air and surface water.



Central Plateau Approach to Closure

Opportunities:

- Early tank closure
- Canyon disposition
- Reactor core disposition
- Remediation
- Indirects/infrastructure



CONCLUSION

- How long will all this take? What will it cost?
- Harry's got some innovative ideas for shortening the time it will take to close the tank farms. Capitalizing on that early closure, and adding our own ideas for things like reactor core and canyon disposition, Central Plateau waste site remediation, and indirect infrastructure costs I think we can reduce lifecycle cost estimates on the RL side of the house from roughly \$36 billion, down to \$20 billion, maybe even better. are some of our ideas for getting there.
- I read a quote recently along the lines of – the dream of yesterday, is the hope of today, is the reality of tomorrow. And that's pretty much where we are.
- In 1998, early completion of ANYTHING seemed like an unachievable dream.
- Today, we've got a solid strategy, the right contracts, a high level of coordination, and momentum.
- Today, we dare to hope for this (point to chart) dramatic reduction. And we'll be working to make it be the reality of tomorrow.